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C O N F I D E N T I A L SECTION 01 OF 02 ACCRA 000447

SIPDIS

E.O. 12958: DECL: 03/01/2013

TAGS: [ECON](#) [EFIN](#) [GH](#)

SUBJECT: WAGES AND TAXES: WEEK'S EVENTS SET STAGE FOR TENSION ON WAGES

Classified By: EconChief F.Day for Reasons 1.5 (b) and (d)

11. (U) Summary: The government is in a very difficult position with its ongoing wage negotiations with government employees. Its new agreement with the IMF caps the wage bill at a 22 percent increase, but it has accepted a 28.6 percent increase in the minimum wage. Holding the average increase to 22 percent is going to be difficult, particularly as public employees are expecting generous raises to compensate for the doubling of petrol prices last January. Ghana's HIPC program will be endangered, however, if the GoG does not succeed in holding the line on its wage bill. End Summary.

12. (U) Wage negotiations in Ghana typically begin with agreement on a new minimum wage. The rate of increase in that wage becomes the benchmark for the rest of the public sector, which in turn influences the private sector. After an abortive attempt by the GoG to unilaterally move the minimum wage up 26 percent to 9,000 cedis per day (\$1.05), government, employers and the unions have agreed to 9,200 cedis. This is quite a bit less than the 12,000 cedis unions had been demanding, and it is not clear that the rank and file will accept it.

13. (U) Negotiations on public sector pay above the minimum rate have not begun, but Finance Minister Osafo-Maafa's presentation to Parliament February 27 clarified the fiscal constraints within which they will be conducted. He announced many measures to enhance revenue, among them a 7 1/2 percent "national reconstruction levy" on banks that was to lapse but which will be continued, a 5 percent levy on re-exported goods, the abolition of non-government lotteries to give the government lottery a monopoly, direct taxation of tro-tro drivers, etc. Many observers were surprised by the absence of an increase in the VAT; we had been told by a senior minister it would go up 5 percent. In fact, Osafo-Maafa did announce a 2 1/2 percent increase, but buried it in the speech so deftly (under the National Health Insurance Scheme) that not even trained economic analysts caught the fleeting mention of an increase in levies on "expenditures and transactions," i.e., the VAT. We were alerted by an official who knew where in the speech it had been inserted.

14. (U) The Minister also announced increases in two taxes on petrol: the road maintenance levy and the debt recovery levy; together, these will raise prices at the pump by more than 10 percent on top of January's near doubling of the price.

15. (C) Protectionist tariffs on rice and frozen chicken were also added to the package at the last minute, four days before the speech. According to a source at the central bank, practically no one knew these were coming. The IMF is said to be upset with these tariffs for a number of reasons: it didn't like being blindsided, the reversion to protectionism seems regressive, and the last minute nature of the decision raises governance issues. Particularly so, in the view of our central bank source, as the chicken tariff is nearly certainly the work of Kwabena Darko, a wealthy and very well connected chicken farmer (comment: we concur in this assessment). These tariffs will raise the cost of living for ordinary Ghanaians.

16. (U) The IMF agreement limits the GoG's ability to offer more in salary increases than can be afforded with these new revenue measures but without increased borrowing. The mutually agreed upon limit is 22 percent. Since the increase at the bottom end of the scale was nearly 29 percent, other workers will be asked to settle for somewhat under 20 percent. Workers certainly do not know this yet, and labor negotiators trying to boost the minimum wage increase did not realize (or perhaps accept) the zero sum nature of what they were doing. The more successful they were, the less other workers might get later.

17. (U) Comment: We may be entering a contentious period. There is unsettled business left over from the petroleum increases; people are expecting pay raises. Given Ghana's current situation, unrealistic expectations may run into unpleasant reality--the government simply cannot afford more. Furthermore, a number of provincial officials we have spoken to recently have termed a VAT increase on the heels of the petrol hikes "political suicide," but fiscal exigencies left the GoG no real choice.

18. (U) Comment Continued. While no one noticed the VAT increase in Osafo-Maafo's address, people will notice it in their pockets (store clerks will receive instructions on collecting it), and may be even more annoyed at the seemingly non-transparent manner in which it came about. They may also notice the smallish bump in gas prices. Additionally, electricity and water rates were scheduled to go up March 1st. The stakes are high; ng the line on government borrowing is a firm IMF condition on renewal of Ghana's HIPC program. However, we note a near non-reaction to the doubling of fuel prices save two modest labor marches and the usual radio talk show froth. The agreement on the minimum wage has also seen little protest. Fiscal discipline must balance with domestic political concerns--so far the government is keeping its balance. End Comment.
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